

# Allowance Trading and Tracking Annual Reconciliation

Louisville, KY

July 25, 2001

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## Allocations

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- ◆ “Allowance” is defined as an authorization to emit one ton of NO<sub>x</sub> during the ozone season
- ◆ Allocations by:
  - 126: Federal rule-making
  - SIP: State SIP
- ◆ Allocation basis:
  - 126: Allocation based on historical heat input multiplied by 0.15 lb/mmBtu, and ratcheted to meet 95% of State budget
  - SIP: variable



## Allocations (cont.)

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- ◆ New sources must hold allowances
  - 126: new source set-aside
  - SIP: mostly new source set-asides
- ◆ Time period for initial allocation
  - 126: 5 years, updated every 5 years
  - SIP: variable, from 1 to 15 years



## Banking and Flow Control

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- ◆ Sources have flexibility to save unused allowances (carry over for use in future)
- ◆ “Flow Control” is used to minimize emissions variability with the use of banked allowances
  - provides an “insurance policy” triggered only when saved allowances equal more than 10% of trading budget
  - if triggered, sets a 2-for-1 rate for saved allowances used above a specified level



## Compliance Supplement Pool

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- ◆ Allowance pool addresses reliability concerns at start of program
- ◆ 200,000 allowances divided among states based on size of reduction
- ◆ Early reduction credits: Part 75 monitoring required
  - 126: based on ozone season reductions in 2001-2002
  - SIP: based on ozone season reductions in 2000-2003 or banked OTC allowances



## Compliance Supplement Pool (cont.)

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- ◆ Distributed directly to sources based on need
  - SIP call only
- ◆ Allowances may be used by sources for compliance in first two years
- ◆ Deadline to apply:
  - 126: Feb 1, 2003
  - SIP: variable



## Opt-ins

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- ◆ To qualify, units must:
  - be operating
  - not already be in program
  - not be exempt from program
  - vent all emissions to stack
- ◆ Application:
  - account certificate of representation
  - permit application
  - monitoring plan



## Opt-ins (cont.)

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- ◆ Establishment of baseline
  - part 75 monitoring for one full control period
- ◆ Allocation
  - baseline emission rate times the lesser of the baseline heat input or heat input from prior year
- ◆ Withdrawal
  - choose date not during control period
  - submit request at least 90 days prior to date
  - cannot reapply for 4 years



## NOx Allowance Tracking System

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- ◆ Maintains information on
  - accounts
  - the issuance of all allowances
  - the holdings of allowances in accounts
  - the deduction of allowances for compliance purposes
  - the transfer of allowances between accounts



## Compliance Accounts

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- ◆ Unit Accounts
  - automatically established for each affected unit
  - 12 digit account number
    - » first six digits are ORIS code
    - » second six digits are unit ID
    - » example: 004567000CT1
  - populated with initial allocation
- ◆ Overdraft accounts
  - automatically established for each plant with two or more units



## Account Representation

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- ◆ Account Certificate of Representation (AAR form)
  - designates the Authorized Account Representative (AAR) [and alternate]
    - » individual who is responsible for all submissions under the NOx Budget Program
    - » authorized by agreement between all owners/operators
  - one per plant
    - » identifies all units
    - » identifies owners and operators of each unit



## AAR Form

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- ◆ See following page



## General Accounts

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- ◆ General Accounts
  - for any individual or organization
- ◆ Established by submitting form
  - name and contact information for AAR [and alternate]
  - signature
  - list of all persons with ownership interest in the allowances held in the account



## Allowances

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- ◆ Identified by 12 digit serial number
  - first four digits are the compliance use date
  - last eight digits are sequential
  - example: 200300123456
- ◆ Reported in blocks
  - example: 200300123400 - 200300123499
    - »represents block of 100 allowances



## Allowance Transfers

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- ◆ Form submitted to EPA by transferor (seller)
  - account information for transferor and transferee
  - identification of allowances to be transferred
  - signature of transferor



## Allowance Transfers (cont.)

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- ◆ EPA performs transfer
  - double-entry
  - written confirmation to each party
  - confirmation available on-line, updated daily at 4 p.m.
- ◆ On-line system coming soon





## NOx Allowance Tracking System (NATS) Reports

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### ◆ Reports

- account information
  - » account number, account name, current AAR and alt, owners and operators, history of AAR's
- account balance
  - » account number and name, list of all allowance serial numbers currently held in account, date they were transferred into account, type of transfer
- transfer confirmation report
  - » account numbers for transferor and transferee, date of transaction, allowance serial numbers



## Annual Reconciliation

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- ◆ Sept 30:
  - control period ends
- ◆ Oct 30:
  - emissions data due
- ◆ Nov 30:
  - final allowance transfers must be complete (allowance transfer freeze)
  - compliance certification reports due



## Annual Reconciliation (cont.)

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- ◆ Allowances used for compliance
  - only allowances with a compliance use date for the control period or an earlier year may be used
- ◆ Allowance transfer freeze
  - allowances that may be used for compliance cannot be transferred into or out of a unit or overdraft account



## Compliance Certification

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- ◆ One form for each plant to EPA
  - ID for each affected unit
  - common-stack apportionment
  - compliance certification statement
  - signature of AAR
- ◆ Optional form to identify serial numbers of allowances to be deducted



## Process at EPA

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- ◆ Emissions data received from sources and quality-assured
- ◆ Final allowance transfers received from sources and processed
- ◆ Emissions and allowances compared by NATS
- ◆ Deductions processed
- ◆ Progressive flow control for following year calculated



## Deduction Process

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- ◆ One unit at a time, in numerical order
- ◆ AAR-specified allowances first, FIFO next
- ◆ Overdraft allowances last, no serial number specification allowed
- ◆ If necessary, offset deductions of future-year allowances



## Progressive Flow Control (PFC)

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- ◆ Not used until 2005 compliance
- ◆ If total number of banked allowances exceeds 10 % of regional NO<sub>x</sub> budget (126 and SIP call combined), PFC is calculated for following year
- ◆  $(0.10 \times \text{regional NO}_x \text{ budget}) / \text{total number of banked allowances}$



## PFC Calculation Example

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- ◆ 220,000 Regional NO<sub>x</sub> budget
- ◆ 27,500 banked allowances
- ◆  $(0.10 \times 220,000) / 27,500 = 0.8$



## PFC Example (cont.)

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- ◆ For Plant ABC unit 2:
  - 500 banked allowances in compliance account
  - $500 \times 0.8 = 400$  available at 1:1
    - » equivalent to 400 tons of emissions
  - $500 - 400 = 100$  available at 2:1
    - » equivalent to 50 tons of emissions
  - 2:1 allowances are deducted last and only when necessary to cover emissions



## Excess Emissions

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- ◆ When there are not enough allowances to cover emissions in the unit account or overdraft account
- ◆ Allowances are deducted from following year's allocation on a 3:1 basis

